

**REPORT OF THE AUDIT OF THE
BATH COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BATH COUNTY CLERK

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Bath County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$11,354 from the prior year, resulting in excess fees of \$33,266 as of December 31, 2004. Revenues decreased by \$130,498 from the prior year and expenditures decreased by \$119,144.

Report Comments:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Clerk's Office Lacks Adequate Segregation Of Duties

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Walter B. Shrout, Bath County Judge/Executive
Honorable Glen Roger Thomas, Bath County Clerk
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Bath County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 8, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Walter B. Shrout, Bath County Judge/Executive
Honorable Glen Roger Thomas, Bath County Clerk
Members of the Bath County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Bath County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 8, 2005

BATH COUNTY
 GLEN ROGER THOMAS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Grants		\$	15,625
State Fees For Services			7,008
Fiscal Court			4,086
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	284,358	
Usage Tax		462,525	
Tangible Personal Property Tax		579,599	
Other-			
Marriage Licenses		3,520	
Deed Transfer Tax		21,322	
Delinquent Tax		90,168	1,441,492
			<hr/>
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		10,616	
Real Estate Mortgages		18,783	
Chattel Mortgages and Financing Statements		46,214	
Powers of Attorney		954	
All Other Recordings		8,983	
Charges for Other Services-			
Copywork		7,754	93,304
			<hr/>
Other:			
Refunds		1,567	
Returned Check Fees		189	
Fixture Filings		195	1,951
			<hr/>
Interest Earned			553
			<hr/>
Total Revenues		\$	1,564,019

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
 GLEN ROGER THOMAS, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 217,507

Usage Tax 448,039

Tangible Personal Property Tax 218,361

Licenses, Taxes, and Fees-

Delinquent Tax 10,851

Legal Process Tax 11,643

Candidate Filing Fees 180 \$ 906,581

Payments to Fiscal Court:

Tangible Personal Property Tax 56,625

Delinquent Tax 10,577

Deed Transfer Tax 20,257 87,459

Payments to Other Districts:

Tangible Personal Property Tax 281,445

Delinquent Tax 47,149 328,594

Payments to Sheriff

1,210

Payments to County Attorney

14,567

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 87,594

Employee Benefits-

Employer's Paid Health Insurance 13,412

Materials and Supplies-

Office Supplies 2,440

Other Charges-

Library and Archives Grant 15,625

Refunds 4,719 123,790

Total Expenditures

\$ 1,462,201

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
GLEN ROGER THOMAS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Net Revenues	\$ 101,818
Less: Statutory Maximum	<u>64,952</u>
Excess Fees	36,866
Less: Expense Allowance	<u>3,600</u>
Excess Fees Due County for 2004	33,266
Payments to Fiscal Court - February 8, 2005	<u>33,266</u>
Balance Due Fiscal Court at Completion of Audit	<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BATH COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2004
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 13, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$ 41,585 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 13, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	103,838
Uncollateralized and uninsured	<u>41,585</u>
Total	<u>\$ 245,423</u>

BATH COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 4. Grants

A. Kentucky Department for Libraries and Archives Microfilming Grant

The County Clerk was awarded a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$6,430 in 2002. The unexpended grant balance as of January 1, 2004 was \$5,100. Funds totaling \$5,100 were expended during the year, leaving a balance of \$0 at December 31, 2004.

B. Kentucky Department for Libraries and Archives Local Records Grant

During 2004, the County Clerk was awarded a local records grant from the Kentucky Department of Libraries and Archives in the amount of \$10,525 for the purpose of purchasing an automated indexing system for the Clerk's office. Interest totaling \$21 was accrued during the year. Funds totaling \$10,525 were expended during the year. The unexpended grant balance was \$21 as of December 31, 2004.

BATH COUNTY
GLEN ROGER THOMAS, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 13, 2004, \$41,585 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Clerk's Response: The bank was told to increase pledge.

INTERNAL CONTROL – REPORTABLE CONDITION /MATERIAL WEAKNESS:

The Clerk's Office Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks an adequate segregation of duties because during 2004, the Clerk was solely responsible for preparing the daily check out sheets, preparing the daily deposits, preparing the receipts and disbursements ledgers, preparing the monthly bank reconciliations and for preparing the delinquent tax reports. The clerk has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, having one person solely responsible for these duties compromises the internal control structure of the clerk's office. Having only one individual who is responsible for all duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The clerk should delegate some duties to other employees to help strengthen the internal control structure of his office. For example, the duties of recording transactions, preparing daily check out sheets, preparing deposits, preparing bank reconciliations, and preparing reports could be delegated among different employees. We recommend that the clerk implement and develop procedures to help strengthen the internal control structure of his office.

County Clerk's Response: None.

PRIOR YEAR:

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

These comments have not been resolved and are repeated in the current year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Walter B. Shrout, Bath County Judge/Executive
Honorable Glen Roger Thomas, Bath County Clerk
Members of the Bath County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Bath County Clerk for the year ended December 31, 2004, and have issued our report thereon dated July 8, 2005. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bath County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bath County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition listed above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Bath County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
July 8, 2005

